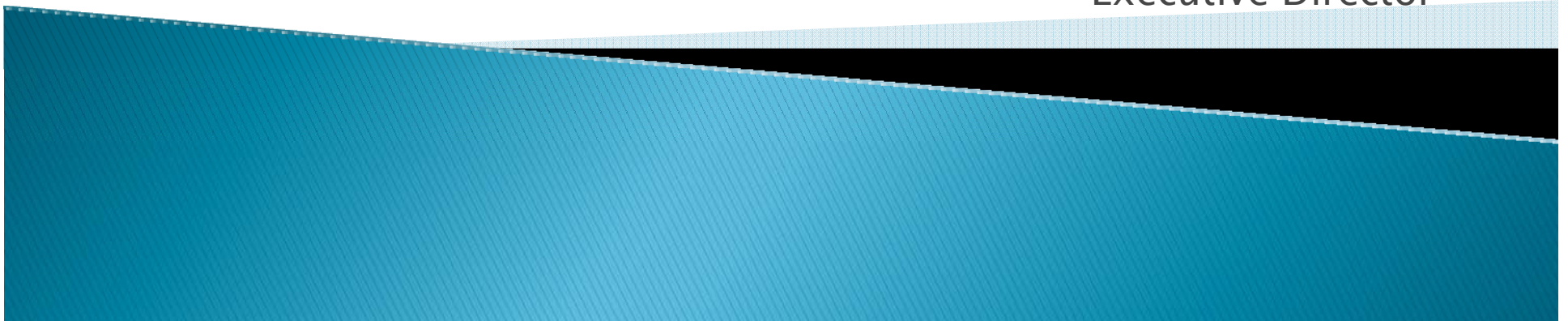


TAX-EXEMPT BOND FINANCING & AN OVERVIEW OF THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE (CDLAC)

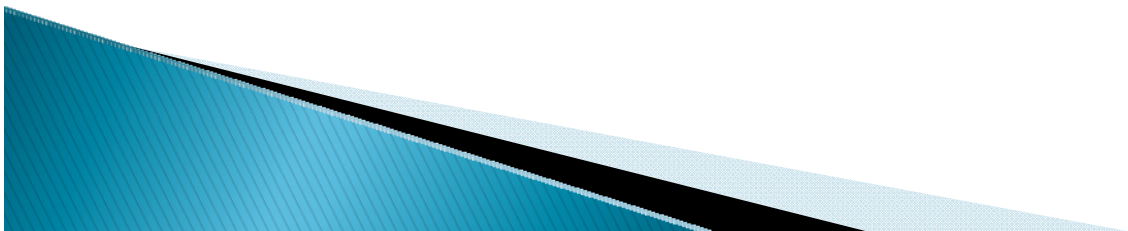
2012 LA-DMH Housing Institute – June 11, 2012

Sean L. Spear,
Executive Director



Agenda

- ▶ Overview of Bonds
- ▶ CDLAC Structure
- ▶ Supportive Housing Examples
- ▶ Accessing the Capital Markets

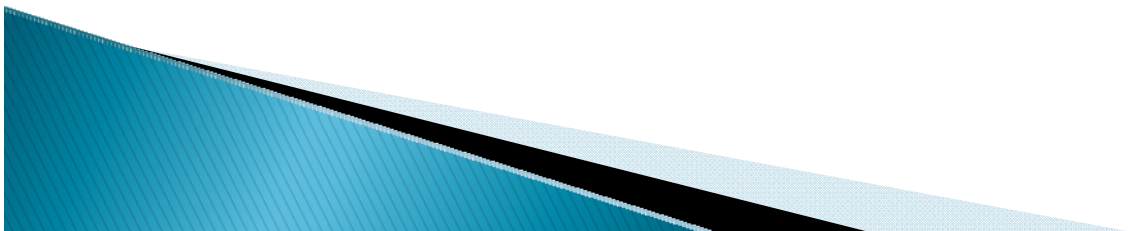


BONDS



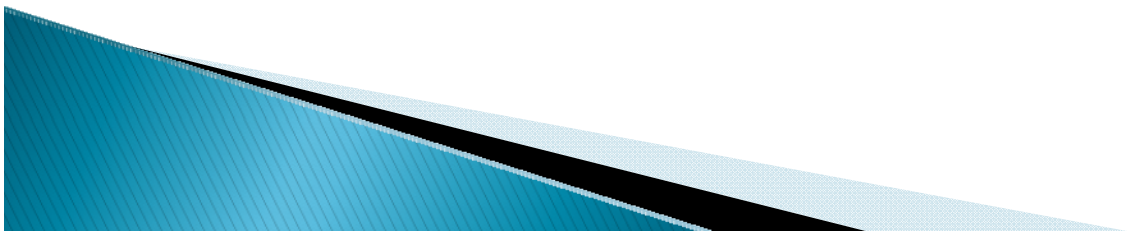
What Are Tax-Exempt Bonds?

- ▶ Bonds are a form of debt.
- ▶ When investors purchase bonds, they essentially lend money to the bond seller, or issuer. In this way, a bond is similar to an IOU. In return for the bond proceeds, the issuer promises to pay the investor a specified rate of interest over the life of the bond and to repay the bond when it comes due.
- ▶ Government agencies sell bonds to finance a variety of projects and activities. Corporations may also sell bonds to finance projects and/or capital expenditures.
- ▶ Governments *typically* issue tax-exempt bonds; Corporations *typically* issue taxable bonds.



Municipal Bonds

- ▶ Bonds issued by government agencies are called municipal bonds.
- ▶ The funds are used to finance projects that benefit the community such as roads, schools, bridges, sewers, parks, water treatment or low-income housing. Most bonds issued by government agencies are tax-exempt, as defined under the Internal Revenue Code. This means bondholders do not have to pay federal income taxes and, in most cases, state income taxes on the interest they earn.
- ▶ In addition to the tax-exempt status, investors benefit from the taxing authority of the government agencies. That authority strengthens the security of municipal bonds, giving investors greater assurance they will get paid on time and in full.
- ▶ The tax-exempt status and minimal risk of default lead investors to agree to lower interest rates relative to other forms of borrowing. As such, government agencies, and thus the taxpayers, can benefit from lower borrowing costs as compared to standard market loans or even taxable bonds.



Private Activity Bonds

- ▶ Government agencies may also, in certain cases, issue tax-exempt bonds on behalf of private businesses.
- ▶ These bonds are known as "Qualified Private Activity Bonds" and may be issued for various purposes such as low income multi-family housing, industrial development, redevelopment projects, enterprise zones or facilities that treat water, sewage or hazardous materials. The lower borrowing costs facilitate the development of projects that may not otherwise be feasible if financed at market rates.
- ▶ Unlike typical municipal bonds, the payment of principal and interest on private activity bonds is not the responsibility of the issuing government agency. Instead, it is the responsibility of the private business receiving the proceeds. By relieving government agencies of the financial obligations associated with bond debt, private activity bonds are a low-risk alternative for communities to finance projects.



CDLAC

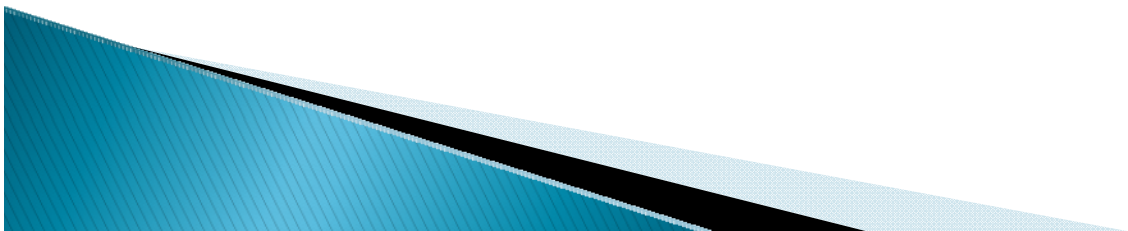


California Debt Limit Allocation Committee (CDLAC)

The California Debt Limit Allocation Committee (CDLAC) is a three member Committee comprised of the State Treasurer as Chair, the Governor, and the State Controller.

CDLAC was created in 1986 by Governor Proclamation in response to the 1986 Tax Reform Act, which imposed an annual limit on the dollar amount of tax-exempt private activity bonds that may be issued in a state. Private activity bonds include multifamily and single family housing bonds, student loan, exempt facility bonds and industrial development bonds. The Act also required each state to designate an entity to allocate the state's ceiling among various state and local issuers. In California CDLAC is that entity.

The Committee has three non-voting advisory members, the Director of the Department of Housing & Community Development, the Executive Director of the California Housing Finance Agency, and a local government representative appointed by the Chair of the Committee.



Statutory Responsibilities

State: The California Debt Limit Allocation Committee (Committee) was statutorily created in California by Chapter 943, Statutes of 1987, in response to the 1986 Federal Tax Reform Act. California Government Code Section 8869.80 et seq. defines the Committee's responsibilities as follows:

- **Set the Annual State Ceiling:** The Committee is required to establish the California allocation limit for private activity bonds (the CAP). The CAP is established as soon as is practicable after the start of each calendar year. Historically, the Committee has set the annual CAP in January, and has used the “per capita” formula as prescribed by the U.S. Treasury. For example, the 2011 cap was set at \$3,539,125,820. The 2012 CAP is based on the December 2011 population estimate of 37,691,912 ($37,691,912 \times \$95 = \$3,580,731,640$).
- **Allocate the State Ceiling:** The California Debt Limit Allocation Committee is granted the sole authority for allocating the annual CAP in California.
- **Other Administrative Functions:** CDLAC is a fee financed agency which is authorized to prepare forms, establish procedures and regulations, set priorities, require a performance deposit, assess fees, and perform other administrative functions as necessary.

CDLAC Programs

CDLAC is a fee based program and receives no federal or state funding. Agencies and organizations authorized to issue tax-exempt private activity bonds or mortgage credit certificates must receive an allocation from CDLAC. The bonds issued utilizing the private activity bond allocation are purchased by municipal bond investors and the repayment is the obligation of the Borrower not the state.

CDLAC has adopted [Regulations](#) for allocating the annual state ceiling. The Regulations give priority to projects or programs that provide the greatest public benefits. Applications for award of allocation are reviewed and recommended through a competitive process.

The Committee has six (6) program pools for the issuance of tax-exempt private activity bonds:

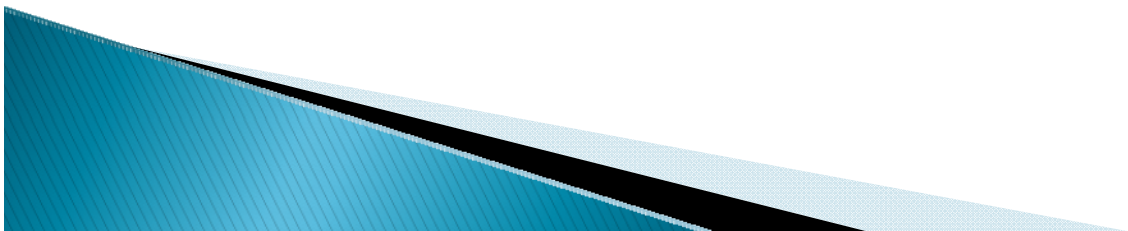
- [Qualified Residential Rental Program \(QRRP\)](#)
- Single-Family Housing Program
- Teacher Extra-Credit Home Purchase Assistance Program
- Student Loan Program
- Small-Issue Industrial Development Bond Program
- Exempt Facilities Program

Qualified Residential Rental Program (Multifamily)

State and local governmental agencies and joint powers authorities can issue tax-exempt housing revenue bonds. These bonds assist developers of multifamily rental housing units to acquire land and construct new units or purchase and rehabilitate existing units. The tax-exempt bonds lower the interest rate paid by the developers. The developers in turn produce market rate, mixed-income, and affordable rental housing for low and very low-income households by reducing rental rates to these individuals and families. Projects that receive an award of bond authority have the right to apply for non-competitive 4% tax credits.

Bond Authority for Rental Projects is awarded to three sub-pools:

- **General Pool** (Projects having more than 50% of total units designated as Restricted Rental Units);
- **Mixed Income Pool** (Projects having 50% or fewer of total units designated as Restricted Rental Units);
- **Rural Project Pool** (Projects located in a rural area as defined by California Health and Safety Code Section 50199.21 but shall not include a Mixed Income Project).



SUPPORTIVE HOUSING EXAMPLES



CDLAC and Supportive Housing

- ▶ Awarded allocation to 9 Projects in Last 15 Months
- ▶ Total of \$120.9 Million in Bond Authority; expected to Produce 245 Supportive Units (556 Units Overall)
- ▶ 8 New Construction & 1 Acquisition & Rehabilitation
- ▶ Serving Formerly Homeless, Developmental Disabled, TAY, Mentally and/or Physically Challenged
- ▶ Using the Following Supportive Housing Resources:
 - LACDC Homeless Funds
 - MHSA
 - MHP-Supportive
 - HUD 811
 - PHA Project-Based Section 8
 - Shelter Plus Care

Project Example



Mid-Celis Apartments

- ▶ Housing Description: New Construction of 19 (1BR, 2BR & 3BR) Units for Transition-Aged Youth (TAY)
- ▶ Project Location: City of San Fernando, Los Angeles County
- ▶ Issuer: Housing Authority of the County of Los Angeles
- ▶ Amount Requested: \$4,400,000
- ▶ Transaction specifics: Private Placement with Wells Fargo Bank (as the Construction Lender) and the California Community Reinvestment Corporation (as the permanent Lender).
- ▶ Public Benefits: Provide 19 new affordable special needs units (100% of units restricted to $\leq 50\%$ of AMI). Will include adjacent lot to be used as open space for the residents, with access to a nearby library, park, work support services and a mental health center.
- ▶ Other Information: MHSA Funded. Building will be LEED-Silver certified; to be completed in early 2013.

Project Example



Vista Terrace Apartments

- ▶ Housing Description: Acquisition & Rehabilitation of 46 (2BR & 3BR) Units for Homeless and Disabled Families
- ▶ Project Location: City of Vista, San Diego County
- ▶ Issuer: California Municipal Finance Authority
- ▶ Amount Requested: \$10,100,000
- ▶ Transaction specifics: Private Placement with JP Morgan Chase
- ▶ Public Benefits: Provide 46 renovated affordable special needs units (combination of units restricted to $\leq 50\%$ and $\leq 60\%$ of AMI).
- ▶ Other Information: Joint-Venture of a nonprofit developer and a local homeless service provider. State MHP-Supportive Funded. To be completed in mid-2013.

Project Example



Harvest Park Apartments

- ▶ Housing Description: New Construction of 89 (1BR, 2BR, 3BR & 4BR) Family Units, with 9 for mentally and/or physically challenged
- ▶ Project Location: City of Chico, Butte County
- ▶ Issuer: California Statewide Communities Development Authority
- ▶ Amount Requested: \$11,003,333
- ▶ Transaction specifics: Combination Private Placement and Publicly-Sold with a Wells Fargo Bank Letter of Credit during Construction, with a forward-committed Freddie Mac credit enhancement for the Permanent Phase.
- ▶ Public Benefits: Provide 89 new affordable units (combination of units restricted to $\leq 50\%$ and $\leq 60\%$ of AMI). Gated community style with on-site community building (services and classes), computer lab, commercial kitchen, fitness center and pool.
- ▶ Other Information: Joint-venture of a large property owner and City/PHA-sponsored supportive housing developer to create an integrated 5.5 acre community. Campus will incorporate Universal Design elements; to be completed in late 2013.

ACCESSING THE MARKETS

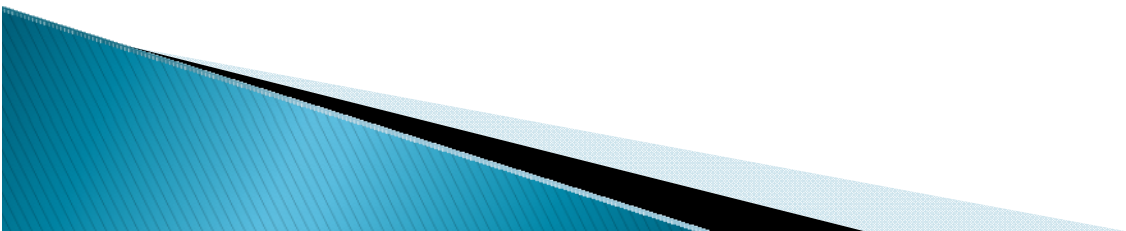


Where to Begin

- ▶ Selecting Your Issuer
 - Location (Eligibility)
 - Familiarity with your Project Type
 - Fees
 - Prevailing Wage

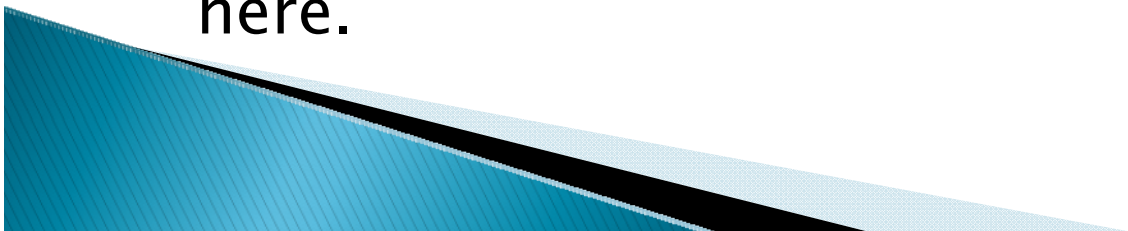
- ▶ Building Your Financing Team
 - Bond Counsel
 - Financial Advisor
 - Placement Agent / Underwriter
 - Lender
 - *Build your team based upon the best bond structure for your project!*

- ▶ Follow a Realistic Timeline
 - Readiness = Dollar Savings!



Observations on Accessing Capital

- ▶ Credit Enhancement, particularly for private activity bonds, will remain scarce for the foreseeable future;
- ▶ However, placement agents have been successful in moving mid- to low-investment grade issuances, suggesting that the markets have adjusted to a more diversified bond supply.
- ▶ Private Placements and Invitation-Only QIB Sales have also proven to be viable alternatives to public sales. Commercial Banks (particularly those with CRA Requirements) have been especially active here.



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